Announcement: **Moody's issues annual credit report on France**

Global Credit Research - 17 Oct 2011

Frankfurt am Main, October 17, 2011 -- In its annual credit report on France, Moody's Investors Service says that the country's Aaa rating with a stable outlook reflects the French economy's strength, the robustness of its institutions and very high government financial strength.

The rating agency's report is an update to the markets and does not constitute a rating action.

France's sustainable GDP growth has been supported by the economy's large size, high productivity, broad diversification and its track record for innovation, together with high private sector savings and an only moderate built-up of household and corporate liabilities. In Moody's opinion, these features provide ample capacity to absorb shocks -- as demonstrated by the resilience of domestic demand during the global crisis -- although some risk factors (such as the weak prospects for global growth) continue to constrain medium-term economic performance.

However, Moody's notes that the government's financial strength has weakened, as it has for other euro area sovereigns, because the global financial and economic crisis has led to a deterioration in French government debt metrics -- which are now among the weakest of France's Aaa peers. Moody's nevertheless continues to deem France's financial strength to be very high, particularly when compared with debt affordability (interest burden in relation to government revenues) which remains comfortable. But very high debt finance-ability in an uncertain financial and economic environment, which is a crucial feature of Aaa governments, rests on investors' confidence in the government's ability and in its willingness to tackle unforeseen challenges. France may face a number of challenges in the coming months -- for example, the possible need to provide additional support to other European sovereigns or to its own banking system, which could give rise to significant new (contingent) liabilities for the government's balance sheet.

The deterioration in debt metrics and the potential for further contingent liabilities to emerge are exerting pressure on the stable outlook of the government's Aaa debt rating. Moody's notes that the French government now has less room for manoeuvre in terms if stretching its balance sheet than it had in 2008. France's continued commitment to implementing the necessary economic and fiscal reform measures as well as visible progress in achieving the targeted sustainability improvements will be important for the stable outlook to be maintained. Over the next three months, Moody's will monitor and assess the stable outlook in terms of the government's progress in implementing these measures, while taking into account any potential adverse economic or financial market developments.

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